

new file



1980

**ANNUAL
REPORT**



Annual Meeting

Shareholders are cordially invited to attend the Annual Meeting to be held at the Westin Hotel, Banff Suite, Calgary, Alberta on October 7, 1981 at 10:00 A.M.

Corporate Profile

Petroleum Royalties Limited (Petroy) is a Canadian exploration and development Company with land holdings in Canada and the United States, and production from established oil and gas reserves in Alberta.

Company operations in the United States are carried out through a wholly-owned subsidiary Trio-Petro Inc. ("Trio"), a private Company incorporated in the State of Colorado.

A public offering of the Company's Class "A" shares and stock purchase warrants was completed on August 6, 1981 with the sale of 750,000 units, each consisting of one share and one warrant. A Prospectus dated July 9, 1981, issued in connection with the public offering is available from the Company's Head Office.

Application has been made to list the units of shares and warrants on the Toronto Stock Exchange. After October 1, 1981 shares and warrants will be separately traded. The Company has requested the stock symbol be "PRY".

Head Office

501 - 1015 - 4th Street S.W.,
CALGARY, Alberta
T2R 1J4
Phone (403) 264-8212

Board of Directors

George Blackstock
Edmonton, Alberta
President of the Company

Robert W. Blackstock
Edmonton, Alberta
Vice-President, Beta Well Service Limited

William J. Blackstock
Calgary, Alberta
President, Abcon Engineering Ltd.

Stanley W. Jones
Calgary, Alberta
Executive Vice-President of the Company

David C. Keffer
Calgary, Alberta
Managing Director of the Company

Robert H. Lee
Edmonton, Alberta

Officers

George Blackstock
President

*Stanley W. Jones
Executive Vice-President

David C. Keffer
Managing Director

William J. Blackstock
Vice-President and Secretary

Robert W. Blackstock
Treasurer

*Appointed June, 1981



PRESIDENT'S REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors of Petroleum Royalties Limited, it is my pleasure to present the Annual Report of the year ended December 31, 1980.

Gross revenues from oil and gas sales totalled \$1,175,124, a 299% increase over the 1979 sales of \$392,518. As a result of the nearly tripling of gross revenues the company was able to achieve an income, before extraordinary items, of \$93,822 compared to a loss of \$574,953 in the previous year. After giving effect to non-recurring extraordinary items net income for the year totalled \$147,886 or earnings of \$0.04 per share.

During 1980 we increased our holdings in the United States. Major acreage acquisitions were made in New York State, Pennsylvania and West Virginia. The land assembly is part of an on-going program to establish significant holdings in the Appalachian Basin of the United States which the company is confident will be productive of oil and gas both from the established shallow horizons, and from the deeper overthrust zones which are at an early stage of exploration in the area. In 1981 we expect to be drilling in New York State, Ohio, Colorado and Wyoming. If the results are encouraging those programs could result in significant development programs in 1982.

The uncertainty over the effect of the National Energy Program was a major contributing affect in the termination of a public share offering planned for the fall of 1980. I am however, pleased to report that a subsequent public offering was completed on August 6, 1981 by the issuance of 750,000 units of shares and warrants of the company's common stock. The infusion of funds from the public issue will allow your company to continue planned operations in the United States and Canada.

For the year 1981 the outlook for our company operations is very positive. We will be concentrating exploration and development activities in the United States. We will continue to maintain our drilling commitments in Canada in anticipation of improved net back for new oil and gas production.

From a Canadian base it is our objective to build Petroleum Royalties into a significant international oil and gas exploration company. We will search out opportunities in all jurisdictions where we can maximize the return on investment.

In conclusion may I thank all shareholders for their confidence in the management of the company's affairs. I want to extend my special thanks to the members of the Board of Directors and to the staff of the company who are responsible for the success of our company.

George Blackstock
President

OPERATIONS

During the year 1980 the company participated in the drilling of 29 wells resulting in 5 oil completions, 18 gas wells and 7 wells which were dry and abandoned. One well drilled at Lamont, Alberta is classed as a dual oil and gas producer.

ALBERTA

Abee

The company drilled one gas well at Abee in 1980. Currently one well is producing and 3 are shut-in awaiting market. Production is under a long term contract and is scheduled to increase to 1,500 mcf per day in 1981.

Jenner

In the West Jenner Block the company drilled 3 wells during 1980. Petroleum Royalties has participated in the drilling of 134 gas wells in the Jenner field with working interest varying from 3.75% to 75%. After payout, the company's interest will be approximately 40% of the gas reserves. The Jenner field constitutes the largest single portion of the company's proven gas reserves.

Lamont

The company drilled the discovery well at Lamont in 1976. In 1980 18 wells were drilled, of which one well was productive of both oil and gas from separate zones, 2 wells were completed as oil wells and 11 as gas wells. Additional drilling to meet offset commitments and further delineate reservoirs are planned for 1981.

Long Coulee

A 23.75% working interest in a 2,560 acre farmout at Long Coulee in Southern Alberta was acquired in 1980, and initial well was completed as an oil producer in 1981. Follow-up drilling in this most interesting area is planned for 1981.

Cameron Hills

In this field straddling the Alberta-Northwest Territories border the company holds interest in 123,333 gross (11,625 net) acres, principally in the Northwest Territories. Two gas wells were completed in 1979 and an additional gas well was completed during 1980. Further development in this field will be delayed pending establishment of markets.

ONTARIO

The company's interests consist of 22,086 gross (15,460 net) acres in the Wainfleet area of Southern Ontario. A drilling program is planned for 1981.

UNITED STATES

Operations in United States are conducted through a wholly owned subsidiary company, Trio-Petro Inc. ("Trio") which was acquired in 1977. Trio has been accumulating land in areas of geological interest especially in Indiana, Ohio, New York, Pennsylvania and West Virginia. In addition, Trio has well placed exploratory acreage in Montana, North Dakota, Wyoming and Utah. At the end of 1980. United States acreage inventory was 314,167 gross (139,979 net) acres.

Our first drilling operations in the United States in Madison County, New York resulted in completion of a gas well. Follow-up drilling is planned for 1981.





PRODUCTION

Net production of crude oil during the year amounted to 7,193 barrels compared to 7,051 in the year previous. Natural gas production increased to 517,319 mcf compared to 236,704 mcf in the previous year. The increase of approximately 219% in production is a result of gas reserves at Lamont being placed on production during the year.

SUMMARY OF DRILLING ACTIVITY YEAR ENDED DECEMBER 31, 1980

Area	Oil	Gas	Dry and Abandoned
Alberta			
Abee	—	1	1
Arrowwood	1	—	—
Jenner	—	3	—
*Lamont	3	12	3
Long Coulee	1	—	—
Saskatchewan			
Whiteside	—	—	1
North-West Territories			
Cameron Hills	—	1	1
West Cameron Hills	—	—	1
United States			
New York	—	1	—
	5	18	7

* Drilling results for Lamont, Alberta include one well classed as a dual oil and gas producer.

WELL SUMMARY

The following table summarizes oil and gas wells in which the Company has a working interest as at December 31, 1980.



	Producing Gas wells		Producing Oil wells		Shut-in Oil or Capped Gas wells	
	Gross	Net	Gross	Net	Gross	Net
CANADA						
Alberta						
Abee	1	.23				
Arrowwood			1	.25	2	.23
Arrowwood Gas Unit No. 1	16	.24			2	.03
Cameron Hills					3	.18
Empress					1	.33
Excelsior					1	.34
Gleichen					3	2.50
Jenner	122	49.15			12	3.55
Lamont	6	1.01	10	3.02	23	4.13
Long Coulee					1	.12
Wainwright	2	.13			1	.25
Windfall			1	.07		
Youngstown					1	.15
Ontario					5	3.50
Total Canada	<u>147</u>	<u>50.76</u>	<u>12</u>	<u>3.34</u>	<u>55</u>	<u>15.31</u>
UNITED STATES (1)						
Montana					1	.30
New York					1	.33
Total United States					<u>2</u>	<u>.63</u>
TOTAL CANADA AND UNITED STATES	<u><u>147</u></u>	<u><u>50.76</u></u>	<u><u>12</u></u>	<u><u>3.34</u></u>	<u><u>57</u></u>	<u><u>15.94</u></u>

(1) Operation in the United States are conducted through a wholly-owned subsidiary Trio-Petro Inc. ("Trio").



ACREAGE REPORT

AS OF
DECEMBER 31, 1980

Alberta

Area	Gross	Net	Producing		Undeveloped	
	Acres	Acres	Gross	Net	Gross	Net
Abee	2,560	576	1,280	288	1,280	288
Atlee Buffalo	10,880	1,813	1,120	187	9,760	1,626
Aldersyde	1,838	919	—	—	1,838	919
Arrowwood	19,343	3,588	1,760	156	17,583	3,432
Barons North	320	160	—	—	320	160
Beddington	1,440	720	—	—	1,440	720
Bruce	640	320	—	—	640	320
Cameron Hills	5,920	1,066	—	—	5,920	1,066
Champion	5,120	3,021	—	—	5,120	3,021
Empress	5,600	1,867	640	213	4,960	1,654
Excelsior	640	215	640	215	—	—
Fort Saskatchewan ...	5,650	683	—	—	5,650	683
Gleichen	1,760	1,600	1,760	1,600	—	—
Jenner	42,400	14,076	20,320	5,908	22,080	8,168
Keystone	480	116	—	—	480	116
Lamont	35,854	3,800	16,640	930	19,214	2,870
Long Coulee	2,560	323	160	38	2,400	285
Manning	8,640	578	—	—	8,640	578
Stettler	40	40	—	—	40	40
Wainwright	680	88	680	88	—	—
Windfall	640	12	160	5	480	7
Youngstown	2,880	461	640	29	2,240	432
	<u>155,885</u>	<u>36,042</u>	<u>45,800</u>	<u>9,657</u>	<u>110,085</u>	<u>26,385</u>

British Columbia

Steamboat Mountain ..	11,801	216	—	—	11,801	216
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Northwest Territories

West Cameron Hills ..	117,318	10,559	—	—	117,318	10,559
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Ontario

Wainfleet	22,086	15,460	200	140	21,886	15,320
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Saskatchewan

Plato, South	160	80	—	—	160	80
Plato, North	320	160	—	—	320	160
Whiteside	2,078	532	—	—	2,078	532
	<u>2,558</u>	<u>772</u>			<u>2,558</u>	<u>772</u>

TOTAL CANADA	<u>309,648</u>	<u>63,049</u>	<u>46,000</u>	<u>9,797</u>	<u>263,648</u>	<u>53,252</u>
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UNITED STATES

Indiana	29,725	28,238	—	—	29,725	28,238
Montana	123,657	46,423	—	—	123,657	46,423
New York	97,918	32,987	40	13	97,878	32,974
North Dakota	8,855	3,116	—	—	8,855	3,116
Ohio	19,225	15,503	—	—	19,225	15,503
Pennsylvania	30,100	10,033	—	—	30,100	10,033
Utah	1,280	1,280	—	—	1,280	1,280
West Virginia	1,007	336	—	—	1,007	336
Wyoming	2,400	2,063	—	—	2,400	2,063

TOTAL UNITED STATES	<u>314,167</u>	<u>139,979</u>	<u>40</u>	<u>13</u>	<u>314,127</u>	<u>139,966</u>
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TOTAL CANADA AND

UNITED STATES	<u>623,815</u>	<u>203,028</u>	<u>46,040</u>	<u>9,810</u>	<u>577,775</u>	<u>193,218</u>
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AUDITORS REPORT

To the Shareholders of
Petroieum Royalties Limited:

We have examined the consolidated balance sheet of Petroleum Royalties Limited as at December 31, 1980 and the consolidated statements of income and deficit and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants,
Edmonton, Alberta

April 9, 1981, except for Note 7 and 10
as to which the date is July 9, 1981.



CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

**Year Ended
December 31, 1980**

	1980	1979
REVENUE		
Oil and gas	\$1,175,124	\$ 392,518
Interest	48,835	—
Other	22,922	300
	<u>1,246,881</u>	<u>392,818</u>
EXPENSES		
Operating	313,279	211,202
General and administrative	414,411	479,474
Interest on long term debt	278,711	211,751
Other interest	15,410	33,925
Depreciation, amortization and depletion	151,848	60,821
	<u>1,173,659</u>	<u>997,173</u>
INCOME (LOSS) FROM OPERATIONS	<u>73,222</u>	<u>(604,355)</u>
OTHER INCOME		
Gain (loss) on foreign exchange	<u>(2,202)</u>	<u>1,063</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>71,020</u>	<u>(603,292)</u>
INCOME TAXES (Note 6)		
Alberta royalty tax credit	<u>22,802</u>	<u>28,339</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	<u>93,822</u>	<u>(574,953)</u>
EXTRAORDINARY ITEMS		
Loss on sale of assets	—	—
Debt forgiven	—	—
Recovery of bad debt	54,065	—
	<u>54,065</u>	<u>—</u>
NET INCOME (LOSS)	<u>147,886</u>	<u>(574,953)</u>
DEFICIT, BEGINNING OF YEAR, AS RESTATED (Note 12)	<u>1,709,219</u>	<u>1,134,266</u>
COSTS RELATED TO TERMINATED SHARE OFFERING	<u>145,835</u>	<u>—</u>
DEFICIT, END OF YEAR, AS RESTATED	<u>\$1,707,168</u>	<u>\$1,709,219</u>
EARNINGS (LOSS) PER SHARE (based on weighted average of shares outstanding)		
Income (loss) before extraordinary items	<u>\$.02</u>	<u>\$ (.16)</u>
Net income (loss)	<u>\$.04</u>	<u>\$ (.16)</u>



CONSOLIDATED BALANCE SHEET

		ASSETS	
December 31, 1980			
		<u>1980</u>	<u>1979</u>
CURRENT ASSETS			
Cash	\$ 53,613	\$ —	
Marketable Securities	100	100	
Accounts receivable			
Trade	1,351,058	926,530	
Employees	15,390	—	
Inventories	64,065	—	
Alberta royalty tax credit	22,802	53,821	
Prepaid expenses and deposits	31,494	13,401	
	<u>1,538,522</u>	<u>993,852</u>	
FIXED ASSETS			
Natural resource properties	5,389,529	3,195,155	
Pipeline and production equipment	658,736	573,017	
Other equipment	75,606	24,863	
Leasehold improvements	53,448	—	
	<u>6,177,319</u>	<u>3,793,035</u>	
Less accumulated depreciation, amortization and depletion	367,578	215,730	
	<u>5,809,741</u>	<u>3,577,305</u>	

Approved by the Board:

George Blackstock
George Blackstock, Director

W. J. Blackstock
William J. Blackstock, Director



LIABILITIES

	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (Note 2)	\$ 228,269	\$1,154,430
Accounts payable and accrued charges	1,070,314	873,051
Current portion of share purchase (Note 4)	44,408	44,408
Affiliated companies (Note 7)	155,812	879,605
Directors (Note 7)	238,178	—
	<u>1,736,981</u>	<u>2,951,494</u>
LONG TERM DEBT		
Bank loans (Note 3)	3,100,000	1,182,295
Share purchase (Note 4)	54,400	98,808
Directors (Note 7)	40,000	40,000
Affiliated companies (Note 7)	782,245	—
	<u>3,976,645</u>	<u>1,321,103</u>
DEFERRED NATURAL GAS REVENUE	233,652	87,626
	<u>4,210,297</u>	<u>1,408,729</u>
	<u>5,947,278</u>	<u>4,360,223</u>
CONTINGENT LIABILITIES (Note 11)		

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Notes 8, 9 and 10)		
Authorized		
15,000,000 Class A common shares without nominal or par value		
Issued and fully paid		
4,029,722 Class A common shares		
(1979: 3,641,722)	3,108,153	1,920,153
DEFICIT (Note 12)	1,707,168	1,709,219
	<u>1,400,985</u>	<u>210,934</u>
	<u>\$7,348,263</u>	<u>\$4,571,157</u>



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended
December 31, 1980

	1980	1979
SOURCES OF WORKING CAPITAL		
Operations		
Net income (loss) before extraordinary items	\$ 93,822	\$ (574,953)
Items not affecting working capital		
Depreciation, amortization and depletion . .	151,848	60,821
Recovery of bad debt	54,064	—
	<u>299,734</u>	<u>(514,132)</u>
Proceeds from sale of		
Production equipment	1,114	—
Natural resource properties	44,744	12,056
Leasehold improvements	20,760	—
Other equipment	1,917	—
Issue of Class A common Shares (Note 8)	1,188,000	—
Increase in bank loan	1,917,705	488,601
Advances from affiliated companies (Note 7) . . .	782,245	—
Deferred natural gas revenue	146,026	87,626
	<u>4,402,245</u>	<u>74,151</u>
USES OF WORKING CAPITAL		
Purchase of		
Other equipment	52,660	3,332
Production equipment	86,833	43,456
Natural resource properties	2,239,118	808,184
Leasehold improvements	74,208	—
Share purchase debt becoming due		
within one year	44,408	44,408
Reduction of directors' advances	—	21,180
Costs related to terminated share offering	145,835	—
	<u>2,643,062</u>	<u>920,560</u>
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY	1,759,183	(846,409)
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR	(1,957,642)	(1,111,233)
WORKING CAPITAL (DEFICIENCY), END OF YEAR	\$ (198,459)	\$ (1,957,642)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of Petroleum Royalties Limited and its wholly-owned subsidiary Trio Petro Inc.

Natural resource properties

(a) Oil and gas

The Company follows the full cost method of accounting for oil and gas operations wherein all costs relating to the exploration for and the development of such properties are capitalized. Such costs include land acquisition costs, geological and geophysical costs and carrying charges on non-productive wells. These costs are reduced by proceeds from the sale of oil and gas properties and also by government drilling and seismic incentives with the net costs accumulated in cost centres as follows:

Canada

Costs included in this cost centre are depleted using the composite unit of production method based upon estimated proven reserves.

Outside Canada

Costs included in this cost centre have been capitalized pending the outcome of exploration and related activities. It is expected that such costs will be depleted on the composite unit of production method if sufficient reserves are discovered.

(b) Mining

Acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless a project is abandoned. Revenue from mining properties is not taken into income unless the proceeds exceed the total project cost.

Depreciation and amortization

Depreciation and amortization of fixed assets are recorded at the following rates based on their cost:

Automotive equipment	30% declining balance
Office furniture	20% declining balance
Leasehold improvements	10% straight line
Pipeline and production equipment	7% straight line

Translation of foreign currencies

U.S. dollar accounts in these financial statements are translated into Canadian dollars on the following basis:

- (a) Current assets and current liabilities — at the rates of exchange prevailing at the year end.
- (b) Non-current assets (and related depreciation and amortization) and non-current liabilities — at the rates of exchange prevailing when the assets were acquired or the liabilities assumed.
- (c) Income and expenses (other than depreciation and amortization) — at a rate approximating the rate of exchange prevailing on the days of the transactions.
- (d) Gains and losses on translation of foreign currencies are included in income.

Costs of share issue

Costs related to the issue of shares other than the commission paid to the underwriters are charged to retained earnings when incurred. The proceeds received from the issue of shares are recorded net of the underwriters' commission.

Costs incurred with respect to an unsuccessful or otherwise terminated share offering are charged to retained earnings in the period the offering is so terminated.

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

Deferred natural gas revenue

Revenue received under natural gas contracts in advance of production is treated as deferred revenue until such time as the production is delivered.

2. BANK INDEBTEDNESS

Bank indebtedness consists of:

	1980	1979
Cheques issued in excess of bank balance	\$228,269	\$ 565,403
Amount of bank loans due within one year (Note 3)	—	589,027
	<u>\$228,269</u>	<u>\$1,154,430</u>

3. BANK LOANS

	1980	1979
Bank of Montreal, revolving production loan, bearing interest at 1% above the Bank's prime lending rate	\$3,100,000	\$ —
Province of Alberta Treasury Branch Demand loan payable bearing interest at 2% above the Treas- ury Branch's prime lending rate Demand loan payable in equal monthly instalments of \$33,250 including interest at 2% above the Treasury Branch's prime lending rate	—	200,000 1,140,331
Canadian Imperial Bank of Commerce Demand loan payable in equal monthly instalments of \$7,500 including interest at 2½% above the Bank's prime lending rate	—	278,891
First National Bank of Denver Demand loan bearing interest at 1% above the Bank's prime lending rate	—	152,100
	<u>3,100,000</u>	<u>1,771,322</u>
Less amount due within one year	—	589,027
	<u>\$3,100,000</u>	<u>\$1,182,295</u>

The bank loans are secured by a personal guarantee signed by George Blackstock, President of the Company.

The revolving production loan is allowed to revolve freely up to a maximum of \$3,500,000. Although the loan is of a demand nature, no specific repayment program exists, with advances to be repaid from future production revenue. Should the bank find it necessary to demand repayment of the loan, payment would be made by application of available production revenue, or by the sale of natural resource properties. Accordingly, since the repayment of this loan is not expected to require the use of existing working capital, no portion has been reflected in current liabilities.

4. SHARE PURCHASE

On September 1, 1977, the Company purchased all of the issued and outstanding shares of Trio Petro Inc. which is incorporated under the laws of Colorado in the United States of America. At the date of acquisition the purchase price was \$232,033, including exchange of \$23,033. The outstanding debt bears interest at 8% per annum, is due April 1, 1983 and is payable as follows:

	1980	1979
Total payable	\$98,808	\$143,216
Less amount due within one year	<u>44,408</u>	<u>44,408</u>
	<u>\$54,400</u>	<u>\$ 98,808</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. REMUNERATION OF DIRECTORS AND OFFICERS

A senior officer of the Company was paid \$43,625 during the year (1979 \$44,461).

6. INCOME TAXES

Losses of prior years

As at December 31, 1980, the Company and its wholly owned subsidiary, Trio Petro Inc. had cumulative losses available for tax purposes of \$2,270,093 (1979, \$2,405,361) as indicated below. No recognition has been made in the financial statements for these amounts which may be used in future years to reduce taxable income.

	Year of Loss	Amount	Year of Expiry
Petroleum Royalties Limited	1976	\$ 70,866	1981
	1977	389,910	1982
	1978	559,910	1983
	1979	671,803	1984
		<u>1,692,489</u>	
Trio Petro Inc.	1975	16,482	1982
	1977	30,500	1984
	1978	131,028	1985
	1979	180,767	1986
	1980	218,827	1987
		<u>577,604</u>	
		<u>\$2,270,093</u>	

Computation of net income for income tax purposes

	1980	1979
Net income (loss) per financial statements	<u>\$147,886</u>	<u>\$(574,953)</u>
Add: Net loss of Trio Petro Inc.	61,014	178,673
Depreciation and depletion	151,848	60,821
Crown royalties	160,324	113,355
Donations	1,660	—
	<u>374,846</u>	<u>352,849</u>
Less: Alberta royalty tax credit	22,802	28,339
Cumulative Canadian exploration expense	—	95,964
Cumulative Canadian development expense	—	218,150
Foreign exploration and development	—	24,884
Prior years tax losses	354,095	—
Capital cost allowance	—	82,362
Costs related to terminated share offering ..	145,835	—
	<u>522,732</u>	<u>449,699</u>
Net income (loss) for income tax purposes	<u>\$ —</u>	<u>\$(671,803)</u>

7. RELATED PARTY TRANSACTIONS

Transactions with related parties have been in the normal course of business except for:

- Interest free advances, without set repayment terms, between affiliated companies and directors of the Company.
- By agreement effective January 1, 1980 the Company acquired working interests in leases denoted at "East Jenner" from G. Blackstock and Beta Well Service Limited for \$409,291. Prior to this, these leases were subject to a pay-out agreement whereby these participants received 80% of the Company's net revenue on these leases until their capital investment was recovered and 10% thereafter. These leases are treated as paid-out as of January 1, 1980 and thereafter the Company receives 90% of the net revenue on these leases;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (c) By agreement effective December 31, 1980 between the Company and Beta Well Service Limited, Custom Drilling Co. Ltd., Independent Drilling & Exploration Co. Ltd., and W. J. Blackstock, it was agreed that commencing January 1, 1981 all amounts owing to these parties by the Company would bear interest at a rate equal to the prime rate charged by the Bank of Montreal; and that the principal amounts presently payable to, Beta Well Service Limited of \$329,620, Custom Drilling Co. Ltd. of \$271,902, Independent Drilling & Exploration Co. Ltd. of \$180,723, and W. J. Blackstock of \$40,000 would not be repaid in any amount which would cause the Company to have a negative working capital balance. Repayment will occur annually commencing April 1, 1982, to a maximum of the positive working capital balance as at December 31, of the prior year.

The percentage of the issued share capital of Petroleum Royalties Limited owned by the affiliated companies and directors and the balances payable resulting from the above transactions are as follows:

	1980		1979	
	Balance	% Ownership	Balance	% Ownership
Beta Well Service Limited	\$329,620	19.5	\$ 45,682	28.4
Custom Drilling Co. Ltd.	427,714	5.0	653,200	—
Independent Drilling & Exploration Co. Ltd.	180,723	30.0	180,723	33.2
	<u>938,057</u>		<u>879,605</u>	
Less amount due within one year	155,812		—	
	<u>\$782,245</u>		<u>\$879,605</u>	
G. Blackstock	<u>\$238,178</u>	13.4	<u>\$ —</u>	7.9
W. J. Blackstock	<u>\$ 40,000</u>	14.5	<u>\$ 40,000</u>	—

8. SHARE CAPITAL

In the period January 1, 1980 to December 31, 1980 the following share transactions have occurred:

May, 1980

10,000 shares at \$1.00 per share were issued to two employees pursuant to a stock option agreement.

December, 1980

58,000 shares at \$1.00 per share were issued to the following individuals, pursuant to a stock option agreement.

G. Blackstock	50,000
D. Keffer	5,000
Other employees	<u>3,000</u>
	<u>58,000</u>

December, 1980

320,000 shares at \$3.50 per share were issued to the following affiliated companies in respect of monies owing:

Beta Well Service Limited	120,000
Custom Drilling Co. Ltd.	<u>200,000</u>
	<u>320,000</u>

During the year ended December 31, 1978 the Company was granted continuance under the Canada Business Corporations Act and its authorized share capital was increased from 3,000,000 class A common shares to 15,000,000 class A common shares.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. STOCK OPTION

The Company entered into stock option agreements dated November 16, 1979 whereby it granted two senior officers and three employees the option to purchase collectively 204,000 class A common shares. The options outstanding as at December 31, 1980 are:

58,000 class A common shares at \$1.50 per share exercisable between January 1, 1981 and December 31, 1981, and

58,000 class A common shares at \$2.00 per share exercisable between January 1, 1982 and December 31, 1982.

A further 150,000 shares have been reserved for the granting of additional stock options at the discretion of the directors.

10. SUBSEQUENT EVENTS

Issuance of share capital

The Company entered into an Underwriting Agreement dated July 9, 1981 with A.E. Ames & Co. Limited (the Underwriter), whereby the Company has agreed to sell and the Underwriter has agreed to purchase on or about July 30, 1981, 750,000 Units at a price of \$5.25 per Unit for a total consideration of \$3,937,500 before underwriting commission and expenses of issue estimated at \$375,625. Each Unit consists of 1 class A common share with an assigned value of \$5.25 and 1 class A common share purchase warrant with an assigned value of NIL. Each 2 warrants give the holder the right to purchase 1 class A common share at \$5.75 per share on or before June 30, 1983.

In January, 1981, 50,000 class A common shares at \$1.50 per share were issued to George Blackstock, President of the Company, pursuant to a stock option agreement.

By agreement dated June 29, 1981, all of the shareholders of Beta Well Service Limited and Custom Drilling Co. Ltd. agreed to sell all of their common shares of those companies to a non-affiliated third party. Prior to the closing of the sale, all shares of Petroleum Royalties Limited owned by Beta Well Service Limited were sold on a proportionate basis to their shareholders. As well, G. Blackstock and W. J. Blackstock assumed the debt receivable from Petroleum Royalties Limited owed to the two companies. Custom Drilling Co. Ltd. had disposed of its shares in Petroleum Royalties Limited in early 1981 to companies controlled by the Blackstock family.

11. CONTINGENT LIABILITIES

In November, 1977 the Company commenced action against Grand Prix Natural Gas Ltd. ("Grand Prix") and Vipond Oil & Gas International Ltd. under which the Company sought a declaration that a certain agreement dated July 24, 1974 between the plaintiff and the defendants was no longer in force. In February, 1978 Grand Prix issued a counterclaim against the Company seeking damages in the amount of approximately \$1,600,000. The Company is defending the counterclaim, and examinations for discovery were held in October, 1978. Trial has been set for October, 1981. Company counsel and management are endeavouring to settle this counterclaim and are of the opinion that any liability in respect of the counterclaim over \$100,000 is unlikely.

The Company is the defendant in an action commenced in January, 1980 by Grand Prix. The plaintiff seeks a judgment in the amount of \$173,000, together with interest and costs, relating to the Company's proportionate share of costs of construction of gas facilities in the Jenner area. The Company has filed a statement of defence and has requested a satisfactory accounting from Grand Prix in respect of such construction costs. Also, Grand Prix has threatened to join with this action a claim in the amount of \$31,375 for costs related to the construction of these gas facilities. Examinations for discovery were commenced in July, 1980 and are continuing. Company counsel and management are endeavouring to settle this claim and are of the opinion that any liability over \$250,000 is unlikely.

The Company is the defendant in an action commenced in February, 1980 by Grand Prix. The plaintiff seeks a judgment in the amount of \$51,269, together with interest and costs, relating to a debt alleged to be owing by the Company for the supply of line pipe. The Company has filed a statement of defence. Company counsel and management are endeavouring to settle this claim and are of the opinion that any liability over \$70,000 is unlikely. Any costs of settlement of the lawsuits described above will be treated as follows:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (a) Principal amount of the settlements will be treated as a current addition to natural resource properties on the balance sheet.
- (b) Depletion on the principal amount will be charged to income as an extraordinary item in the current period.
- (c) Interest charged on the principal amount will be charged to income as an extraordinary item in the current period.

The Company's subsidiary Trio Petro Inc. has \$1,310,092 invested in natural resource properties in the United States. To date minimal exploration or development has taken place and no reserves are known to exist. Management intends to commence exploration on these properties in the 1981-82 drilling season. The Company's investment in and advances to Trio Petro Inc. of \$2,017,206 are carried at cost, the realization of which is subject to reserves being located.

12. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Adjustments to the consolidated statement of income and deficit for the prior periods have been made as follows to reflect corrections in the method of application of the full cost method of accounting:

	1979	1978
Deficit, beginning of year, as previously reported	\$1,259,178	\$ 604,617
Cumulative adjustment to net loss	<u>(124,912)</u>	<u>(50,140)</u>
Deficit, beginning of year as restated	1,134,266	554,477
Net loss, as previously reported	790,210	654,561
Capitalization of geological and geophysical costs previously expensed	95,963	50,503
Reversal of amortization claimed on foreign properties	24,294	24,269
Error in depletion calculation	95,000	—
	<u>215,257</u>	<u>74,772</u>
Net loss, as restated	574,953	579,789
Deficit, end of year, as restated	<u>\$1,709,219</u>	<u>\$1,134,266</u>

13. GEOGRAPHIC SEGMENT INFORMATION:

	1980	1979
Revenue:		
Canada	\$1,234,276	\$ 392,818
United States	12,605	—
	<u>\$1,246,881</u>	<u>\$ 392,818</u>
Net income (loss):		
Canada	\$ 208,900	\$ (153,639)
United States	(61,014)	(421,314)
	<u>\$ 147,886</u>	<u>\$ (574,953)</u>
Identifiable assets:		
Canada	\$5,789,682	\$3,837,509
United States	1,558,581	733,648
	<u>\$7,348,263</u>	<u>\$4,571,157</u>



United States Subsidiary

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Registrar and Transfer Agents

Canada Trust
Company
CALGARY, Alberta

Auditors

Deloitte Haskins +
Sells,
Chartered
Accountants
EDMONTON, Alberta

Bankers

Bank of Montreal
EDMONTON, Alberta

First National Bank
of Denver
DENVER, Colorado

Solicitors

MacKimmie Matthews
CALGARY, Alberta

Swist Jones
EDMONTON, Alberta

Hopper, Kanouff,
Smith and Peryam
DENVER, Colorado

